EXTENSION OF NATIONAL BANK CHARTERS

SPEECH

OF

HON. D. C. SMITH,

OF ILLINOIS,

IN THE

HOUSE OF REPRESENTATIVES,

MAY 13, 1882.

WASHINGTON.
1882.

SPEECH

OF

HON. D. C. SMITH.

The House having under consideration the bill (H. R. 4167) to enable national banking associations to extend their corporate existence—

Mr. SMITH, of Illinois, said:

Mr. SPEAKER: I occupy a somewhat peculiar position in regard to the matter now under consideration. As a private banker, coming in competition daily in my business with the national bank of our city, it will seem somewhat remarkable to members of this House that I should be an advocate of the continuance of the national banking system, and yet that is the case. Having been in the banking business for quite a number of years, having observed the operation of the national banking system, I am firmly convinced that the best interests of the people of this country will be subserved by the continuation of that system. Being convinced that the interests of the people will thereby best be subserved, I am in favor of a bill which will facilitate the reorganization, or rather the extension, of the national-bank charters when they expire.

The first reason for this that occurs to me is that it will keep in the channels of trade a great deal of money now in the banks to be reorganized, which if they go into liquidation will seek investment elsewhere. The amount of that money which composes the surplus funds of the banks is $184,000,000, according to the report of the Comptroller of the Currency. If you compel the present corporations to liquidate their liabilities to stockholders and depositors, all this surplus will be scattered and go into other enterprises—and that is a large sum. Whereas if these charters are renewed, as is proposed by this bill, the bulk of that money may be retained by these banks for the uses to which it is now applied. This to my mind is one strong argument why the facility proposed to be extended by this bill to these banks should be granted under their organizations as they now exist.

There have been objections urged upon this floor against this bill because parties making them were in favor of the distribution of this surplus fund to the stockholders. This bill provides that in case there is a dispute, the stockholder who wishes to retire from the national banking system, and withdraw his interest, shall be justly treated. That his stock and its value—its market value—shall be appraised by three persons, one to be appointed by himself, one by the bank, and those two to choose a third, who shall say what is the value of his stock, and that value the bank must pay; and if the bank refuses to pay its value, it further provides that he shall have an appeal to the Comptroller of the Currency, who shall appoint some person with authority to make a final decision. The commit-

tee, therefore, have aimed to do justice to the stockholders of the national banks, and no one would be aggrieved by the passage of this bill.

One more point before I leave the stockholders. There are many individuals representing trust funds who have invested that money in the stock of national banks, and have regarded it as the safest and best investment possible, as well as the most profitable to the widows and orphans of the estates they represent. Has it ever occurred to gentlemen in this House that much of the money now invested in this manner in the national-bank stocks (money held by these parties in trust) would be seeking other investment, and such trustees would not be again able, under the law, to purchase new stock in other corporations and thereby be compelled to do great injury to the trusts they hold if we do not pass this bill? To many holders of national-bank stock which is now well invested and a profitable source of income this would be a hardship.

Mr. BRUMM. Will the gentleman yield to me for a question?

Mr. SMITH, of Illinois. Certainly.

Mr. BRUMM. I would like to ask the gentleman in the first place must not the present system be abolished or the public debt be perpetuated? And then I would like to ask him a question as to this trustee business to which he has referred.

Mr. SMITH, of Illinois. In answer to the gentleman's question I will reply, not at all. The Comptroller of the Currency advises us that as long as there are $150,000,000 of Government bonds in existence the present national banking system can be maintained with its present circulation.

Mr. BUCKNER. Not with its present circulation.

Mr. SMITH, of Illinois. I should have said, with the least possible circulation under existing laws.

Mr. BRUMM. Then you must contemplate the existence of a public debt to that extent.

Mr. SMITH, of Illinois. Not at all. I am in favoring of maintaining the national banking system even if they lose every dollar of their circulation.

Mr. BRUMM. Now, in reference to this issuing business, that being the main object of the bill——

Mr. SMITH, of Illinois. I beg the gentleman's pardon; it says nothing about the issuing business.

Mr. BRUMM. Does not this bill expressly refer to the right of the national banks to issue their money? It does not say deposits on demand or exchanges; if so, I would like the gentleman to point it out.

Mr. SMITH, of Illinois. The gentleman must certainly know that the national banking system does not derive its great benefits from the fact that it is allowed a currency. That is the least, as has been so ably shown by the gentleman from Massachusetts.

What is it that makes the national banking system profitable? It is that it commands the confidence of the people and thereby commands their deposits; and it is upon these deposits that they make their millions and millions of money, and not upon the circulation as furnished them by the national Government.

Mr. BRUMM. Will the gentleman permit me to ask him a question?

Mr. SMITH, of Illinois. Yes, sir.

Mr. BRUMM. Is the gentleman willing to vote for a bill that will retain to the national banks every function that they now possess except the issuing function?

33R.11
Sm54r

Mr. SMITH, of Illinois. That question is not before us now.

Mr. BRUMM. I am asking you now, will you vote for such a bill?

Mr. SMITH, of Illinois. I think when the time comes when we shall have sufficient specie in the United States upon which to base our currency, that the national-bank bills may be retired. I am in favor of maintaining the national banks now and paying off the national debt as rapidly as possible. If they are compelled gradually and slowly to retire their circulation, well and good; this fact does not frighten me, and for this reason: we are increasing, or have during the last three or four years increased, our circulation to such a large extent by the importation of gold and the production of silver that we have mined, upon which we have issued those silver certificates, which I think are the best circulation we have—a great deal better than your national-bank bills or your greenbacks, because every one of them represents so much specie on hand. By the increase of those silver certificates, if our prosperity continues and the balance of trade should continue to be in our favor, we could gradually dispense with the circulation of the national banks; and this threat of the retirement of the national-bank currency has no terror for me.

Mr. BRUMM. That is all I want to know.

Mr. DINGLEY. Will the gentleman yield to me for a question?

Mr. BURROWS, of Missouri. I desire also to ask a question.

Mr. SMITH, of Illinois. Certainly; I am willing to listen to any questions that may be put to me.

Mr. DINGLEY. I wish to make a suggestion at this point whether it is not a little premature to predicate legislation with respect to the currency upon an extinguished national debt when it is fifteen hundred millions to-day and seven hundred and thirty-nine millions of it do not become due for twenty-five years.

Mr. BRUMM. Does the gentleman from Maine wish me to answer him?

Mr. SMITH, of Illinois. I will answer him. I think that discussion would be premature now, as the discussion between my friend from Maine [Mr. DINGLEY] and the gentleman from Missouri [Mr. BLAND] on the silver question was entirely premature.

Mr. BRUMM. Their questions and answers are birds of a feather. The answer is, with proper legislation we need not have any fifteen hundred millions of debt or any thing like it.

Mr. BURROWS, of Missouri. The question I wish to ask the gentleman from Illinois is this: he seems very much in favor of silver certificates, and so am I. I would like him to account for the recommendation of the Secretary of the Treasury in recommending that sixty-six millions of silver certificates be retired.

Mr. SMITH, of Illinois. I do not agree with the Secretary of the Treasury in that?

Mr. TURNER, of Kentucky. That is honest.

Mr. PAYSON. It is a good answer and a short one.

Mr. SMITH, of Illinois. Well, to continue my remarks, according to the report of the Comptroller of the Treasury, which I hold in my hand, the charters of three hundred and ninety-three national banks will expire before another Congress could take action upon this matter. Therefore if we are friendly to the national banks—of course it is all based upon that—if this Congress is friendly to the national banks we should pass this bill now, in order that these three hundred and ninety-three banks, whose charters expire before February of next year, may have the opportunity of extending their charters under this act which we propose to pass. I wish to touch upon a few

of the reasons why I think the national banking system should be continued.

Mr. BUCKNER. Will the gentleman allow me to ask him a question right here?

Mr. SMITH, of Illinois. Certainly.

Mr. BUCKNER. Has the gentleman the means of stating to the House what proportion of the bonds held by these three hundred and ninety-three banks are in the $3\frac{1}{2}$ percents?

Mr. SMITH, of Illinois. I have it not at my command at this moment, but the gentleman from Missouri [Mr. BUCKNER] has it, and he will be able to give it when he makes his speech. If these banks have not sufficient bonds of the $3\frac{1}{2}$ percents they will have to purchase 4 percents and $4\frac{1}{2}$ percents when the others are called.

Mr. BUCKNER. Suppose they have not the 4 and $4\frac{1}{2}$ percents.

Mr. SMITH, of Illinois. They can go into the market and purchase them if they are anxious to keep their circulation. But I do not think they will be very anxious to keep their circulation.

Mr. BUCKNER. I will give the figures. There are seventy-five millions of bonds which are held to secure the sixty-nine millions of circulation of these banks, only fifty millions of which are $3\frac{1}{2}$ per. cent. bonds. Supposing these banks holding these fifty millions have no other security than the $3\frac{1}{2}$ percents, what becomes of their circulation unless they are willing to buy 4 and $4\frac{1}{2}$ percents?

Mr. SMITH, of Illinois. I think I should answer that question. When we come to Congress next winter, when the gentleman from Missouri will be here and when I shall be here, we can pass a law allowing the unlimited coinage of silver in order to replace the circulation which may have been retired; and I shall favor that when the time comes. The probability is however that these banks which will lose this circulation, or rather whose bonds will be called by the Secretary of the Treasury, will go into the markets and purchase 4 or $4\frac{1}{2}$ percents which have many years to run, provided they desire to keep their circulation. There is not, let me say, such a great disposition on the part of the national banks to secure as much circulation as possible. What are the facts in that connection?

It is not very profitable to the national banks to have this circulation. If that is conceded, then what becomes of this great outcry, over which my friend from Missouri [Mr. BLAND] grows hoarse in speaking, about the great iniquity inflicted upon the people of the United States, who he says are compelled to pay interest on these bonds in order that these monopolists may have the privilege of issuing the circulating medium for the people?

Now, the facts are these, gentlemen, and you are as well aware of it as I am, that the national banks newly organized, more particularly in the West, take out as little circulation as possible.

Only a few days ago, when I was on my return here from a visit home, I was seated by the side of the cashier of a national bank, and I asked him in regard to this bill. He said that they had organized a $50,000 bank some time ago, and had taken out just $27,000 of circulation, because they did not want more; it did not pay.

Then it will be asked why do men go into the national banking business? It is because the people believe it has the protection and supervision of the United States Government. It commends itself to the people because the Government appoints men to investigate the affairs of these banks, because they must make under oath their quarterly reports. In this way the people in the various localities

can see how their moneys are managed under the national banking system.

Right here, in that connection, I would say that I think the investigation of the national banks should be more thorough and more strict. I hope gentlemen in this House will make that point in their speeches, and call the attention of the Comptroller of the Currency to the fact that a better supervision of the national banks is possible, as has been shown by the failure of some prominent institutions by which the people have lost large sums of money.

Yet this is a remarkable fact that although there are now twenty-two hundred national banks and over, and although there have been twenty-five hundred national banks organized, in all these years only eighty-six of them have gone into forced liquidation. And the depositors, not the stockholders, but the depositors, the people, have received from these eighty-six national banks over 76 per cent. of all the money they had deposited in them.

There never has been such a banking system in the world for safety, for security to the people, as the national banking system of this country. It should, therefore, be maintained, and it will be maintained, notwithstanding the prediction of my friend from Missouri, [Mr. BLAND,] who sounded the death-knell of every member of Congress who should go before the people with a vote in favor of continuing these national banks.

I want to state to the gentleman that I made that very issue upon the stump when I ran for Congress, and I defeated a Greenback Democrat who was opposed to national banks. I made the issue fairly and squarely, holding the Republican party responsible for their existence and advocating their continuation as being for the best interest of the people. Upon that issue I defeated my opponent. If there ever was a financial institution that commended itself to the people, it is the national banking system of the United States. No Republican need hesitate to defend it. It commends itself to the confidence of the people, and if it is fairly represented the people will sustain every man who advocates its continuance.

One objection that is made to the national banks, and it is the one that is most often made, is that they cost the Government or the people too much. That objection was repeated by my friend from Missouri, [Mr. BLAND;] but he does not show by the figures how much it costs the people of the United States. I challenge him to show the figures of the cost to the people of the United States of maintaining the national banks.

Mr. BLAND. As the gentleman challenges me, I will tell him that it costs $12,000,000 annually.

Mr. SMITH, of Illinois. How do you figure that out?

Mr. BLAND. I figure it out this way: If the national banks were required to redeem their circulation, the Government could then redeem a sufficient amount of bonds to save $12,000,000 annually. The Government giving these banks that amount of circulation to use for their benefit, denies that to the people. And it costs $12,000,000 to continue the bonds that could be redeemed, if the national-bank circulation were required to be redeemed.

Mr. SMITH, of Illinois. That is with an "if."

Mr. BLAND. Not at all.

Mr. SMITH, of Illinois. The gentleman starts out on his proposition with an "if."

Mr. BLAND. Certainly.

Mr. SMITH, of Illinois. What is the difference between the interest paid by the United States and the taxes paid by the banks to the Government? That is, the cost that the Government must bear.

Mr. BLAND. The interest that these banks pay on their circulation hardly pays for the expense of keeping it up.

Mr. SMITH, of Illinois. They pay 1 per cent. on their circulation.

Mr. BLAND. And that just about pays the expense of the circulation.

Mr. SMITH, of Illinois. Oh, no.

Mr. HUTCHINS. Will the gentleman allow me a moment?

Mr. SMITH, of Illinois. With pleasure.

Mr. HUTCHINS. Is the gentleman aware of the amount of taxes paid by the national banks? Take those in the city of New York, for instance; they have paid as high as 3 per cent. a year, and this year they are taxed nearly 2.60 per cent., so that they pay into the city treasury of New York something like $1,700,000 a year in taxes.

Mr. SMITH, of Illinois. I am aware of that fact.

Mr. BLAND. The State banks would pay taxes on their circulation.

Mr. HUTCHINS. Is it understood on the part of those who would issue Treasury notes or greenbacks that they are to be taxed?

Mr. SMITH, of Illinois. I thank the gentleman for the figures he has given me. I will supplement them by saying that as the national banks must publish the amount of their capital stock and their deposits they are thus subjected to local taxation as are no other institutions in the United States.

Mr. HUTCHINS. Is it not a fact that the national banks, so far as the gentleman knows, are the only institutions in the country that pay tax on the full value of their capital?

Mr. SMITH, of Illinois. In my experience as a banker I have seen a national bank with a capital of $100,000 crowded to the wall by municipal taxation, because the assessor in that locality chose to assess the capital stock at its full value, while the neighbors of that bank paid taxation under the laws of the State upon a valuation of only one-third.

Mr. TOWNSHEND, of Illinois. I would like to ask my colleague whether he knows of any national bank that has ever been taxed upon its reserve fund?

Mr. DINGLEY. I do.

Mr. TOWNSHEND, of Illinois. I know of some national banks that have a larger reserve fund than their capital, and yet they escape taxation upon the reserve fund.

Mr. [illegible] In New Hampshire every dollar of the surplus is taxed.

Mr. TOWNSHEND, of Illinois. I do not know a single national bank in Illinois that has ever paid a cent of taxation upon its reserve, and I know of no bank in New York City, although I have some knowledge of several national banks there, that has ever paid any taxation whatever upon its surplus.

Mr. FLOWER. The Gallatin National Bank is taxed by the State and city upon its stock at a valuation of 145, making an aggregate taxation of $36,975, while the bonds of the bank deposited with the national Government and paying less than 3 per cent. interest yield the bank only $30,000.

Mr. TOWNSHEND, of Illinois. Does that bank pay a tax on its surplus?

Mr. HUTCHINS. Certainly.

Mr. TOWNSHEND, of Illinois. It is the first case of the kind I have heard of.

Mr. SMITH, of Illinois. The surplus fund of a bank in my State is taxed equally with its capital. Under the laws of Illinois the assessor, if he understands his business, can and will always require a bank to pay its full share of taxation. By our law as now amended the capital of national banks is only to be assessed as other property is; and that is just.

Mr. BUCKNER. Does not the gentleman from Illinois know that during the last year, notwithstanding all this local and national taxation under which these banks are supposed to be groaning, the national banks throughout the country have paid upon the average 9 per cent. dividend to their stockholders?

Mr. SMITH, of Illinois. That is right, Mr. Speaker. That speaks well for the prosperity of our country. I have no complaint to make about national banks realizing for their stockholders 9 per cent. when other branches of industry yield quite as much. Why should we object because the national banks make a fair profit?

Mr. DINGLEY. I would like to correct the gentleman from Missouri [Mr. BUCKNER] at this point. When he speaks about the national banks making dividends of 9 per cent. on the average, does he not understand that the local taxation is to be deducted, so that the average net profit is 2 per cent. less?

Mr. BUCKNER. I can only state that the report of the Comptroller of the Currency shows that the dividends of these banks last year averaged 9 per cent. after the payment of all taxes.

Mr. DINGLEY. Not the local taxation. The shareholder pays the local taxation after the dividend is paid.

Mr. HUTCHINS. And in some cases the local taxation is 5 per cent.

Mr. DINGLEY. It is 5 per cent. in some cases. In my State it averages 2 per cent.

Mr. RAY. In the State of New Hampshire the lowest rate of taxation of bank stock is the par value of the stock. If the market value is higher, then it goes into the assessment roll at its market value, and is taxed accordingly. The surplus also is taxed by law, the same as other money at interest.

Mr. TOWNSHEND, of Illinois. I wish to ask my colleague [Mr. SMITH] whether in Illinois the individual shareholder is assessed upon the amount of the stock he holds in a national bank? Is not the tax collected through the bank? Is it not paid by the cashier?

Mr. SMITH, of Illinois. Yes, sir.

Mr. TOWNSHEND, of Illinois. Then, my friend from New York is mistaken——

Mr. FLOWER. If the gentleman from Illinois will read the decision made last year by Judge Brady he will find that the stock of national banks is subject to municipal and State taxation to the full amount of its market value.

Mr. TOWNSHEND, of Illinois. But I understand that the individual stockholder does not pay the tax upon his stock directly; that the tax is collected through the bank.

Mr. DINGLEY. Not at all.

Mr. TOWNSHEND, of Illinois. My colleague, who is a banker, can answer that question.

Mr. DINGLEY. When the Comptroller of the Currency states

that the profits of the national banks last year averaged 9 per cent., he deducts, in reaching that result, the national taxes only, not local taxation.

Mr. BUCKNER. He does not say so.

Mr. DINGLEY. That is the fact.

Mr. SMITH, of Illinois. Mr. Speaker, I have been very patient with my friends during these interruptions, because by colloquy the points of a question like this are often better brought out than by lengthy speeches. I solicit inquiry; and whenever I make a statement, if any member believes it incorrect I wish him to rise and so state. I want to be fair about this matter. I believe it is the interest of all the people of the United States that the national banking system should be continued. Therefore, I favored this bill in committee and support it now.

I now turn to a topic which has been much talked about on the stump and in the Halls of Congress. What profit do the national banks realize upon this privilege of issuing circulation? The gentleman from Massachusetts has fully set forth the facts, but it will do no harm to repeat them. Here is a table. In Illinois, where the rate of interest is 8 per cent., the profit to national banks, whose currency is based on $3\frac{1}{2}$ per cent. bonds, is 1.28 per cent.

The people of the United States, for the privilege of having the national banking system for the State of Illinois, pay 1.28 per cent., which is the entire cost to the people of the United States of the national-bank circulation, leaving out of the calculation the advantages which accrue to the people by municipal taxation.

There is one other point I wish to call to the attention of this House, and that is the advantage to the Government of the United States of the national banks as fiscal agents. Have you thought of it, that the millions and millions of dollars of revenue paid by the people of the United States are handled by this national banking system, through its depositaries, without a cent of cost to the Government of the United States? What would be the cost if you had the State-bank system? Do you suppose the State banks would accommodate themselves to the interest of the national Government, handle all this money and transfer all these exchanges without cost? It is because the national banking system is under the supervision of the United States Government that these facilities are offered to the officers of the Government without cost to the people. And that amounts to a far greater sum if you would figure the exchanges that would have to be paid if they did it through private banks. As a question between the private banks and the national banks, do you not suppose those private banks would charge the Government for doing this work?

And, more than that, these national banks offer as security the deposit of national bonds; that is to secure the deposits which are made with them as fiscal agents of the Government. So that the Government of the United States is perfectly safe every night when its revenues are paid into the vaults of these national banks distributed all over the territory of the United States. Every dollar of that is secured beforehand by the bonds deposited in the Treasury at Washington. You must not keep that out of view, because I think it is an important fact when we consider the cost of the national banks to the people of the United States.

There is one remark made by the gentleman from Missouri [Mr. BLAND] which might mislead. He said, What is the national-bank

note other than a state paper? I understood what he meant, but the impression might be made by that remark that the national-bank note is no better than the State notes we had before the war. It is based on the credit of the United States Government, upon the national bonds, and upon the national credit.

Mr. BLAND rose.

Mr. SMITH, of Illinois. I understood the gentleman and will do him justice.

Mr. BLAND. I do not wish the gentleman to make a false impression. I have no idea that a State-bank note is better than a Treasury note issued by the Government.

Mr. SMITH, of Illinois. Mr. Speaker, the experience of the people of the United States with that "wild-cat money" is not yet forgotten. The fathers teach it to their sons that they also may profit by the lesson that it inculcates. They speak of the "bob-tail," "rag-tag," and "red-dog" currency, or whatever other name that currency had in other days, and they point with pride to the national-bank currency and the "greenback" currency as such a valuable substitute for that other which was based upon the credit of the States.

Now, I believe, Mr. Speaker, that the opposition to the national banking system lies in the fact that there are still many gentlemen on this floor who believe that the States should furnish the basis of circulation. I think the experience of the people will never again allow the States to furnish the basis of circulation.

Mr. TOWNSHEND, of Illinois. Who are they?

Mr. SMITH, of Illinois. I say that I have the impression many of them do.

Mr. TOWNSHEND, of Illinois. Does my friend know of any?

Mr. SMITH, of Illinois. I should think perhaps the gentleman from Mississippi, where national banks are scarce.

Mr. TOWNSHEND, of Illinois. I am not in favor of State or national banks.

Mr. DINGLEY. Were not five bills repealing the 10 per cent. tax on State-bank circulation introduced during the last Congress?

Mr. TOWNSHEND, of Illinois. I was not aware of it.

Mr. DINGLEY. That is all that stands in the way of the resuscitation of the State banks.

Mr. TOWNSHEND, of Illinois. The opposition on this side is to all banks of issue. We believe we can issue Treasury notes as good in every respect as national-bank notes.

Mr. DINGLEY. But there are some gentlemen yet in favor of the State banks.

Mr. TOWNSHEND, of Illinois. They are very few in number.

Mr. BRUMM. The only one I know of is one gentleman on the Committee on Banking and Currency, who, I believe, is in favor of this bill, hoping through this we may ultimately get down to the State banks. I refer to the gentleman from New York.

Mr. FLOWER. Does the gentleman allude to me?

Mr. BRUMM. Yes, sir; the only gentleman I know of in favor of State banks.

Mr. FLOWER. The gentleman misquotes me.

Mr. BRUMM. Then I beg the gentleman's pardon. I certainly have misunderstood him.

Mr. FLOWER. It would not perhaps be safe to say that no banker in this country would like to go back to the State-bank system, be-

cause he made 6 per cent. on his own mortgages and 6 or 7 per cent. on his currency under the old safety-fund system of the State of New York; and certainly no banker would object to that, because he could make more by that system than by this.

Mr. SMITH, of Illinois. I have promised, Mr. Speaker, to yield a part of my time, and therefore I will hurry through with my remarks.

The SPEAKER *pro tempore*, (Mr. THOMPSON, of Iowa, in the chair.) The gentleman has five minutes remaining.

Mr. SMITH, of Illinois. I believe that the time will soon come when the national banks will be willing to voluntarily surrender their circulation. Now, as I have before stated, they have reduced the amounts to the minimum allowed by law. I think that if Congress by judicious legislation will hedge the system about, and let them understand that it shall be maintained for all future time, this circulation may be surrendered as rapidly as the bonds may be paid off, which I hope may be very soon.

We learn by the experience of the people of England that we should base our circulation upon gold and silver in the hands or the vaults of the Government. I suppose all gentlemen here know that the Bank of England issues about fifteen million pounds of circulation upon a credit, and that all the rest of the circulation is based dollar for dollar on the amount of specie in the vaults of the bank. If our prosperity continues, as I said before, I believe the time is not very far distant when we can also bank as the Bank of England does today, which is the proper way; and it will prevent panics and prevent people from rushing to the banks to realize upon their notes in gold and silver. Let us shape our legislation to that end, that we may make it safe for the people to intrust their money and funds now in hand to the care and keeping of the banks.